

for the next general increase in postage rates, assumed in the CBO baseline to occur in June 1988. The USPS, however, has not yet submitted a request for new rates.

With both subsidies eliminated and mailers carrying full postal-service costs, this option would put USPS on a self-financing basis. It would, some analysts suggest, give the USPS an incentive to lower costs by improving management and, at the same time, would eliminate an unfair market advantage that USPS enjoys over competing private-sector firms. Proponents also argue that this option offers a logical conclusion to a trend of declining federal support for postal operations. Since the establishment of USPS as an independent entity in 1972, the Congress has decreased the combined subsidies, including payments for certain public services, from about 25 percent of the full cost of moving the mail to about 11 percent in 1986. The recent changes in retirement financing will decrease the subsidies to less than 4 percent in 1992.

Some observers maintain that subsidies such as special rates for preferred mailers fail to target federal expenditures toward specific national priorities, encourage "junk mail," and provide unnecessary support to many not-for-profit organizations. They point out that such organizations received about \$3 billion in federal grants in 1986, and that support in the form of tax deductions for charitable contributions equaled an estimated \$15 billion in 1986. In addition, the Postal Rate Commission has recommended to the Congress that direct appropriations be eliminated (except for free mail for the blind and some free categories connected with voting).

Opponents argue that eliminating direct and indirect postal subsidies in 1988 would force mail rates up and volume down. The timing, they say, is especially burdensome because the next postage rate increase already must accommodate the additional financing of retirement and of health care for annuitants levied recently on USPS. CBO estimates that, under current law, first-class postage will rise from 22 cents to 25 cents, and that eliminating indirect subsidies alone would increase rate requirements by another one cent. If both subsidies were eliminated, the cost of preferred-rate mail would rise, on average, about 40 percent. Such rate hikes could pose financial difficulties for some organizations--especially those that depend heavily on mail solicitation for fund raising and those just starting out. Recent changes in the tax law may reduce charitable contributions and thus add to such difficulties.

NDD-14 ELIMINATE FEDERAL SUPPORT TO STATES FOR
CONSTRUCTION OF SEWAGE TREATMENT PLANTS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	520	760	1,200	1,740	2,080	6,310
Outlays	5	65	250	520	840	1,680

The Environmental Protection Agency (EPA) provides grants to states and local governments to assist in the construction of local sewage treatment plants. Such plants are required to meet the stringent clean water goals mandated by the 1972 Amendments to the Federal Water Pollution Control Act. Federal participation is deemed necessary to achieve the mandated national goal of clean water. To ensure local compliance with this expensive mandate, the Congress offers the incentive of large federal grants. The government now provides 55 percent of funds for planning, designing, and constructing treatment plants; this share was lowered from 75 percent at the start of 1985.

Current baseline budget projections for these activities call for roughly \$2.5 billion in appropriations in 1988, and a total of \$14 billion over the 1988-1992 period. If grants for construction of wastewater treatment plants were phased out over seven years beginning in fiscal year 1988, the federal government could save about \$5 million in outlays in 1988, and approximately \$1.7 billion over the 1988-1992 period.

Critics of the federal wastewater grant program contend that it fosters inefficiency by providing little incentive to seek cost-effective solutions. A community that expects to receive 55 cents on the dollar from federal funds (plus additional subsidies provided by many state treasuries) has less incentive to control construction costs than if it had to pay for the entire investment. Another common criticism is that the 15-year-old program has far exceeded its original planned lifetime of only three years. Furthermore, this program has created a pattern in which communities line up and wait for federal assistance, for periods of as long as 10 years or more. While waiting for federal subsidies, their wastewater discharges violate mandates for clean water, and the quality of streams and rivers shows

little improvement. Finally, some empirical evidence suggests that EPA grants for construction of sewer systems displace municipal expenditures for the same type of project.

Proponents of federal support for construction of municipal treatment facilities argue that states and localities would not be able to meet the goals of the Clean Water Act without federal assistance. Further, some argue that federal participation is justified because the benefits of reduced risk to human health, wildlife, and the environment extend beyond the local community to those downstream from the treatment facility.

As an alternative to the phase-out of federal financing over seven years beginning in fiscal year 1988, the federal government could reduce outlays by providing funds only to those projects begun before 1988, or by extending the phase-out period to more than seven years. Eliminating or curtailing federal subsidies would transfer a large cost burden to states and localities. The EPA has estimated that meeting national needs for construction of wastewater facilities would cost \$109 billion by the year 2000, of which about \$53 billion would be eligible for federal grants. To meet these needs without federal support--even by the year 2005--states and local jurisdictions would have to spend about \$6 billion a year, or about twice current nonfederal outlays.

NDD-15 REDUCE CREDIT SUBSIDIES TO FEDERAL
POWER MARKETING ADMINISTRATIONS

Savings from CBO Baseline	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1988	1989	1990	1991		1992
Budget Authority	90	220	190	150	130	780
Outlays	360	590	520	460	410	2,340

Federal power marketing administrations--including the Alaska Power Administration, the Bonneville Power Administration, the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration--sell electricity at wholesale rates from generating plants owned and operated by the federal government. Capital investments for these power and irrigation facilities are financed by federal appropriations at subsidized interest rates averaging 3 percent. By law, the agencies are required to use income from electricity sales to repay all federal investments within a "reasonable period," though not at a set rate or on a fixed timetable. Because repayments to the Treasury are the first to be deferred when revenues are insufficient to meet all obligations, however, some power marketing administrations have fallen behind in their payments. Moreover, because subsidized rates are lower than the actual costs of government borrowing, the Treasury has lost money through its appropriations to the power marketing administrations.

Requiring the power marketing administrations to repay all federal appropriations on a fixed schedule and at current Treasury interest rates (about 5.1 percent for one-year notes by 1990) would increase Treasury revenues and would thus lower federal outlays by \$360 million in 1988 and about \$2.3 billion over the 1988-1992 period. (Such receipts enter the budget as offsets to outlays.) These changes could increase electricity rates for wholesale customers in certain service areas. As an alternative--to reduce the effects of a potential price shock on households and industrial customers--the currently subsidized interest rates charged to the power marketing administrations could be gradually raised to Treasury rates. This would slow the pace at which agency repayments increased.

Though the power marketing administrations have promoted regional industrial bases by providing electricity to undeveloped areas, critics contend that the electricity prices charged today by the various agencies do not reflect the actual cost of delivering power. They point out that the original development goal has been met, and that the below-market rates simply represent an inequitable subsidy to certain regions--a cost borne by all taxpayers. Finally, they argue that withdrawing the subsidy from the power agencies' interest payments would not disrupt local economic activity, since electricity prices in areas served by the power agencies would still remain below the national average (they now are less than one-half of the national average). Proponents of the status quo counter that withdrawal of the subsidy could, for some industries, translate into higher product prices and lost market shares.

NDD-16 TRANSFER CONTROL AND FINANCING OF
WATER RESOURCES AND TRANSPORTATION
PROGRAMS TO USERS AND LOCAL AUTHORITIES

Savings from CBO Baseline		Annual Savings (millions of dollars)					Cumulative Five-Year Savings
		1988	1989	1990	1991	1992	
Total Function 400							
Budget Authority		4,990	5,175	5,225	5,380	5,485	26,255
Outlays		3,675	4,580	4,995	5,160	5,255	23,665
Total Function 300							
Budget Authority		1,000	1,100	1,100	1,100	1,100	5,400
Outlays		700	1,000	1,100	1,100	1,100	5,000
By Program							
Airways	BA	2,100	2,150	2,200	2,250	2,250	10,950
	O	2,150	2,150	2,200	2,250	2,250	11,000
Waterways	BA	600	700	700	700	700	3,400
	O	400	600	700	700	700	3,100
Amtrak	BA	60	65	65	70	75	335
	O	55	60	65	70	75	325
Transit	BA	880	880	880	880	880	4,400
	O	660	830	880	880	880	4,130
Highways	BA	1,500	1,600	1,600	1,700	1,800	8,200
	O	200	800	1,100	1,200	1,300	4,600
Ports	BA	800	800	800	800	800	4,000
	O	600	800	800	800	800	3,800
Shipping	BA	250	280	280	280	280	1,370
	O	510	540	550	560	550	2,710

NOTES: While transportation-related programs are spread across numerous budget categories, they are principally accounted for in budget functions 400 and 300. Function 400 includes programs for airways, Amtrak, transit, highways, Coast Guard (included in Ports), and merchant marine fleets and operations (included in Shipping). Function 300 includes programs for inland waterways and for channel and harbor maintenance (included in Ports). Cargo preference savings of \$200 million annually in both budget authority and outlays are included in Shipping but are not included in the totals for either function 300 or 400, since these savings accrue across numerous functions and agency budgets.

Federal transportation expenditures provide significant opportunities for producing budgetary savings and for simultaneously improving the efficiency and efficacy of transportation programs. By transferring control over both financing and spending for many of these programs to nonfederal agencies, the federal subsidies for them could be reduced or eliminated, and the investment in transportation systems could be more closely matched to the demands of the systems' users.

This proposal consists of seven specific program changes that could be made independently or together:

- o Transfer most responsibilities of the Federal Aviation Administration to a private corporation. This airways authority would have responsibility for the operation, maintenance, planning, and financing of the air traffic control system. Research and development programs and safety would remain federal responsibilities and be funded by current aviation taxes and fees.
- o Transfer the inland waterway system to a private corporation, which would be responsible for operating, maintaining, planning, constructing, and financing locks and dams on inland waterways.
- o Reduce operating subsidies for the National Railroad Passenger Corporation (Amtrak) by 10 percent from current levels.
- o Eliminate federal operating assistance for mass transit systems.
- o Eliminate federal funding of secondary and urban roads and local bridges. Interstate and primary system roads and bridges would remain federal programs and be funded by current taxes and fees.
- o Require local contracting for and financing of some ocean and port services, including the operation and maintenance of aids to navigation, and dredging and maintenance of channels and harbors.
- o Eliminate cargo preference for nonmilitary shipments, and eliminate the operating differential and ocean freight differential subsidies.

Eliminating federal financing and control of these programs could yield the following general benefits. First, private financing would require full recovery of costs from the programs' users and beneficiaries. Incentives

would therefore be present to minimize the costs of the services and to charge those costs to the users responsible for them or capable of paying for them. Second, physical capacity, investment, and the level of operation of each of these programs would be more closely matched to the demands of the users and their willingness to finance them. Finally, the establishment and enforcement of safety regulations in these programs would be further separated from the promotion and operation of transportation systems. The intent of these budgetary changes is not to eliminate the programs but to reduce or eliminate federal funding of them.

On the other hand, supporters of the current structure of these programs point out that the benefits provided by these programs, if only indirectly, are nationwide in scope; therefore, a federal role in their funding and planning is required and appropriate. Further, since many of the transportation services covered by these programs are currently provided by or would most efficiently be provided by a single supplier, there would be incentives for private firms to monopolize and try to gain private benefits at the expense of users of the systems. This might result in reduced services, higher than appropriate prices, or cross-subsidies. Efforts to avoid the abuse of monopoly power might require federal economic regulation in lieu of federal financing. Finally, along with federal funding and control of these programs comes federal expertise in managing them, which may be inefficient to duplicate or unavailable locally.

The current level of spending and a discussion of the specific reductions in these individual programs follows. These budgetary savings include only the elimination of annual subsidies, since receipts from the sales of assets were not estimated. In addition, secondary effects, such as increases in federal regulatory costs resulting from these program changes, were not estimated. Finally, in many of these programs, current federal taxes and fees would probably be reexamined if the program responsibilities were divested to other authorities.

Airways. In 1986, the federal government spent over \$4.6 billion on air transportation programs, 50 percent of which was nominally funded by the 8 percent tax on airline passenger tickets and by aviation fuel taxes for private aircraft. Eliminating federal control and funding of the air traffic control system (ATC) would reduce federal spending by about \$2.2 billion each year and by \$11 billion through 1992. This estimate assumes that aviation taxes and fees are reduced by approximately \$700 million annually, which is the current amount of ATC funding coming from these aviation trust fund sources. If these tax levels were not reduced, then the budgetary savings would be higher. If significant tax-exempt bonding were used as a

result of the creation of a private airway authority, the annual savings would be lower.

Waterways. Current federal spending to construct, operate, and maintain the locks and dams of the inland waterway system totals \$600 million annually, a small portion of which is recovered through the current barge tax that is earmarked for new capital projects. Budgetary savings of \$3.1 billion over five years would be reduced to the extent that tax reductions and bonding authority accompany transfer legislation. Appropriate pricing of waterway services may permit the reduction of what seems to be overcapacity in the inland system. On the other hand, it may be difficult to structure a private, user-owned corporation that can appropriately and efficiently price the use of the system given the number of competing interests involved.

Amtrak. The current annual subsidy for Amtrak amounts to just over \$600 million. Reducing this subsidy would increase incentives for Amtrak to control its costs and to price its services efficiently. If not compensated for by local funds or fare increases, however, reducing the subsidy could force both a reduction in service and the payment of labor protection payments that could either offset some of the budgetary savings or threaten Amtrak's survival as an ongoing concern. A 10 percent reduction should not threaten Amtrak's survival and would maintain pressure on Amtrak management to price and operate efficiently. This reduction would reduce outlays by \$325 million over the next five years.

Transit. Operating assistance for mass transit amounts to nearly \$900 million a year. Operating assistance is a passenger subsidy whose requirement arises from local decisions on service levels that are either too great or on fare levels that are too low for revenues to fully cover operating costs; local responsibility for funding this passenger subsidy should assure that these fare and service decisions are made in an efficient and cost-effective manner. Total five-year outlay savings would be \$4.1 billion.

Highways. Federal aid to secondary and urban roads and local bridges currently amounts to approximately \$1.5 billion annually. By eliminating these programs from federal aid, local decisions on roadway investments will more closely match industrial, commercial, and residential demand for highway improvements, and outlays would be reduced by \$4.6 billion through 1992. Since total highway authorizations persistently exceed obligation limits, obligation ceilings would have to be reduced by the amount attributable to obligations for secondary and urban roads. Otherwise, budgetary

savings would disappear, since increases in obligations for interstate and primary highways would replace these local obligations.

Ports. Ocean and port programs are provided by both the Coast Guard and the Army Corps of Engineers. The Coast Guard spends nearly \$400 million annually to operate and maintain aids to navigation, while the Corps spends over \$400 million each year to dredge and maintain channels and harbors; both services are of principal benefit to private commercial interests. By eliminating federal support for these services and requiring ports and local authorities to contract for and finance them, those individuals and organizations using and paying for the services would have a more direct voice in determining the level of services provided and their cost. User fees under the Omnibus Water Resources Development Act of 1986 are projected to recover only 40 percent of port costs. In addition, less than 1 percent of Coast Guard costs are recovered by user fees. This proposal would leave safety and enforcement activities with the Coast Guard, and would permit both the Corps and the Coast Guard to compete with private interests to perform the contract services. Five-year savings would total \$3.8 billion.

Shipping. Current federal regulations require that U.S.-flag vessels carry one-half of government, nonmilitary, ocean freight shipments (as well as all such military shipments). This "cargo preference" requirement costs \$200 million each year in federal subsidies. In addition, over \$300 million each year is expended for the operating differential subsidy (ODS) and ocean freight differential subsidy (OFDS) programs. The ODS compensates U.S. operators of U.S.-flag vessels in foreign commerce for the differences between the operating costs of a U.S.-flag ship with an American crew and those costs of the foreign-flag competition. The OFDS specifically funds the additional cost for the shipment of government agricultural commodities that results from the 75 percent cargo preference requirements for these commodities versus the 50 percent requirement for other nonmilitary shipments. Some analysts contend that national security would be jeopardized by eliminating these programs because doing so would reduce government support for the U.S. merchant marine and its standby, military sealift capability. However, the shipping vessels that benefit from these subsidies are increasingly bulk vessels that are not easily adapted for military transport. Eliminating these subsidies would save \$2.7 billion through 1992.

**NDD-17 ELIMINATE FUNDING FOR UNTARGETED
ELEMENTARY AND SECONDARY EDUCATION
PROGRAMS**

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	

Eliminate Chapter 2 Block Grant

Budget Authority	560	590	620	660	690	3,110
Outlays	45	430	580	620	650	2,320

Eliminate Untargeted Portion of Vocational Education

Budget Authority	430	450	480	500	530	2,390
Outlays	10	340	450	470	500	1,770

Eliminate Mathematics and Science Education

Budget Authority	85	90	95	100	100	470
Outlays	5	55	85	90	95	340

Most federal aid for elementary and secondary education is targeted toward students with special needs. Compensatory education (Chapter 1) funds, for example, are intended for low-achieving children in schools with many poor children. (Chapter 1 is part of the Education Consolidation and Improvement Act, or ECIA.) Federal funds also are provided to help educate handicapped children.

Substantial amounts of money, however, are spent on programs that have no federal requirement for targeting funds toward students with special needs. Examples are the Chapter 2 block grant (of the ECIA), the portion of vocational education grants not targeted toward specific groups of students, and the mathematics and science education program. Ending funding for these three areas would reduce budget authority by about \$1.1 billion in 1988--\$560 million from the block grant, \$430 million from the untargeted portion of vocational education, and \$85 million from the mathematics and science program. Outlays would be reduced by \$60 million in 1988 and \$4.4 billion over the 1988-1992 period.

These changes would save substantial amounts of federal money while leaving intact federal aid specifically directed to students and school districts most in need of that assistance. The effect on total spending for elementary and secondary education would also be small, because the reductions would constitute substantially less than 1 percent of total state, local, and federal expenditures. Moreover, since an unknown portion of these grants is used to support activities that districts would undertake even without the grants, eliminating these funds would have a smaller effect on the specific activities ostensibly funded by them than the size of the grant might suggest.

On the other hand, this reduction could pose hardships for some jurisdictions, because it would come at a time of increasing enrollments. Moreover, these programs have purposes other than increasing services to students with special needs. For example, Chapter 2 block grant funds are intended to provide districts with relatively unrestricted funds for program innovations and improvements, and one goal of the program innovation portion of the vocational education program is to help districts alter their training programs as the skills needed for employment change. Terminating federal funds would require districts to rely on state and local resources for these purposes; to the extent that the grants lead jurisdictions to provide services that they otherwise would not, these goals would be less well met.

NDD-18 REDUCE CAMPUS-BASED STUDENT AID

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	250	270	280	300	310	1,400
Outlays	25	240	270	250	300	1,080

The federal government provides campus-based student aid through three programs: College Work-Study (CW-S), National Direct Student Loans (NDSLs), and Supplemental Educational Opportunity Grants (SEOGs). Financial aid administrators at colleges and universities determine which eligible students receive aid. In the 1985-1986 school year, the federal government provided more than \$1 billion of campus-based aid to more than 1 million students. Reducing federal funding for these programs by 20 percent would lower budget authority by \$1.4 billion and outlays by \$1.1 billion during the 1988-1992 period.

This option could be implemented by simply cutting federal appropriations, or the cut could be combined with a restructuring of the campus-based programs. The number and types of students affected would depend on how the cuts are structured and on how institutions and financial aid administrators react to the changes. Some institutions would continue their own student aid at existing funding levels, thereby having less financial aid available for students; other institutions might increase their own aid to offset part or all of the reductions in federal support.

Combining reduced funding with a restructuring of the campus-based programs could mitigate the effects of less aid. For example, the Congress could limit student eligibility. Because campus-based aid is not heavily targeted toward the lowest-income students, such changes would limit the adverse impact on the poorer students. On the other hand, such restrictions would reduce institutional discretion to adjust for students' special circumstances. A second option would consolidate the three campus-based programs into one block grant, thereby increasing administrators' discretion in allocating funds. Such an increase in discretion would probably not offset fully the effects of reduced funding, however, and could mean that federal goals were less well met. A third alternative would require institutions to provide a larger match of their own funds for each dollar received from the

federal government. If institutions provide the increased match by raising their own support for student aid, federal spending could be cut while maintaining the amount of assistance available to students. To the extent that institutions do not offset the reduction in federal spending, however, less student assistance would be available.

NDD-19 ELIMINATE OR RESTRICT ELIGIBILITY FOR
COMMUNITY DEVELOPMENT BLOCK GRANTS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	

Terminate CDBG

Budget Authority	3,100	3,250	3,350	3,500	3,650	16,850
Outlays	60	1,250	2,900	3,300	3,400	10,900

Restrict Eligibility and Reduce Funding

Budget Authority	430	450	460	480	500	2,320
Outlays	10	170	400	450	470	1,500

The Community Development Block Grant (CDBG) program provides annual grants, by formula, to all metropolitan cities and urban counties under its entitlement component. The program also allocates funds to each state, by formula, for distribution through a competitive process among nonentitlement areas, which are generally units of local government under 50,000 in population that are not metropolitan cities or part of an urban county. The grants may be used for a wide range of community development activities, including rehabilitation of housing, improvement of infrastructure, and economic development.

For 1987, appropriations for the CDBG program amount to \$3 billion, of which about \$2.1 billion is allocated to metropolitan cities and urban counties and about \$0.9 billion to nonentitlement government units. Substantial federal savings could be realized either by terminating the CDBG program or by restricting eligibility for the entitlement component to exclude the least needy communities while reducing funding levels.

Terminate CDBG. If the CDBG program were eliminated, federal outlay savings would amount to \$60 million in 1988 and a total of \$10.9 billion over the 1988-1992 period. Proponents of terminating the program contend that federal funds should be targeted toward programs that offer national benefits rather than to programs like CDBG that generate primarily local benefits and should therefore be funded by state and local governments. They

further suggest that, to the extent that localities use CDBG funds to compete against each other to attract business, benefits have been shifted away from localities to private firms.

On the other hand, opponents of terminating the CDBG program contend that many activities financed by the program are not generally undertaken by local governments--particularly the rehabilitation of low-income housing and, to some extent, economic development. Thus, eliminating this funding--the largest source of federal aid for many cities--would probably curtail these types of activities in many areas, and, in general, reduce resources benefiting low-income households. They further argue that CDBG funding has been figured into the budgets of all entitlement recipients; ending that support therefore could impose at least temporary stress on many governments, particularly in view of cutbacks in other federal assistance programs.

Restrict Eligibility and Reduce Funding for Entitlement Component. If the entitlement component were cut 20 percent by eliminating funding for the least needy communities, federal outlays could be reduced by \$10 million in 1988 and \$1.5 billion over the 1988-1992 period. Such a cutback would change the distribution between the entitlement and nonentitlement components from 70 percent-30 percent to 65 percent-35 percent. The entitlement component of the CDBG program now provides aid regardless of need, although jurisdictions with scarce resources receive larger grants than other communities. Proponents of this option contend that no pressing interest is served by supporting jurisdictions that have above-average ability to fund projects themselves. Eliminating funding for such communities rather than reducing grants across the board would ensure that the most distressed jurisdictions would retain the same level of aid.

On the other hand, CDBG funds in general must be used to aid low- and moderate-income households, to eliminate slums and blight, or to meet emergency needs. Thus, critics of this option argue that a reduction in federal funds for affluent communities would probably curtail such activities in pockets of poverty in those areas.

NDD-20 END FUNDING OF THE ECONOMIC DEVELOPMENT
ADMINISTRATION AND URBAN DEVELOPMENT
ACTION GRANTS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Terminate EDA						
Budget Authority	230	240	250	260	270	1,240
Outlays	25	100	170	220	240	760
Terminate UDAG						
Budget Authority	230	240	250	260	270	1,260
Outlays	10	60	120	180	250	620

The Economic Development Administration (EDA) provides grants to state and local governments for public works, technical assistance, and job programs, as well as loan guarantees and direct loans to firms for business development. In 1987, appropriations for EDA programs totaled about \$215 million. The Urban Development Action Grant (UDAG) program, administered by the Department of Housing and Urban Development, received \$225 million in appropriations in 1987 for distribution to local governments through a competitive selection process to help them finance economic revitalization projects. Federal spending for local economic development could be reduced by \$35 million in 1988 and \$1.4 billion over the 1988-1992 period by disbanding the EDA and eliminating the UDAG program as of 1988.

Some critics of these programs contend that federal assistance should not be provided for activities whose benefits are primarily local and which, therefore, should be the responsibility of state and local governments. In addition, both programs have been criticized for the types of projects that they fund, for allowing federal dollars to be used for projects that would have been supported anyway, for not directing funds to the most distressed areas, for substituting public for private credit, and for facilitating relocation of businesses from one distressed area to another through competition among communities for federal funds. In particular, EDA has been criticized for its broad eligibility criteria, which qualify areas containing 80 per-

cent of the U.S. population, and for providing aid with little proven effect at great expense compared with other programs with similar goals. While the UDAG program has more stringent eligibility standards and more evidence exists that completed projects are meeting investment and employment expectations, grants are often provided for projects in vital commercial centers where full conventional financing may have been available. Proponents of this option further argue that, because of the competitive nature of both programs, local governments would not have incorporated this type of aid into their budget plans and, thus, eliminating future funding of EDA and UDAG would not impose unexpected hardships on communities.

On the other hand, the reduction in aid associated with this option would curtail economic development activities in some financially distressed communities that might not be able to tap other resources. This could result in deterioration of infrastructure, loss of prospective jobs, and decreases in local tax receipts. Eliminating these two sources of funds might have especially serious consequences for the most distressed communities, particularly in view of overall federal cutbacks in urban aid programs.

NDD-21 CANCEL THE NASA INTERNATIONAL
SPACE STATION PROGRAM

	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1988	1989	1990	1991	1992	
Savings from CBO Baseline						
Budget Authority	430	450	480	500	530	2,390
Outlays	230	410	460	490	510	2,100
Savings from Administration's Request						
Budget Authority	770	1,840	2,000	2,200	2,140	8,950
Outlays	410	1,290	1,850	2,100	2,150	7,800

The National Aeronautics and Space Administration (NASA) is in the planning and design phase of a program to build an international space station. The facility will cost (in 1984 dollars) an estimated \$11 billion, of which the United States will provide \$8 billion and European, Canadian, and Japanese partners the remaining \$3 billion. The permanently manned station is to be operational in 1993. It will provide infrastructure to support scientific and commercial activity and a departure point for future manned and unmanned exploration of the solar system.

Canceling the current space station program without initiating an alternative could save as much as \$2.4 billion in budget authority relative to the CBO baseline and as much as \$9 billion relative to the Administration's request. Savings relative to the CBO baseline are lower because the baseline projects no real growth above 1987 appropriations for planning the space station, while the Administration's request includes real growth for procurement and construction of the space station. Because many of the current program's objectives are desirable, an alternative to cancellation is a more modest program using intermittently tended and unmanned facilities rather than a permanently manned facility. Pursuing such an alternative would almost certainly increase expenditures relative to the CBO baseline, but could realize savings relative to the Administration's request. Further study is necessary to determine the cost of this type of option.

In support of canceling the current space station program is the lack of compelling arguments to undertake the project in light of the traditional objectives of U.S. space policy. No significant purpose of national security will be served, as the Department of Defense has expressed very limited interest in using the NASA station. Many civilian scientific goals could be met earlier and at a lower cost with a more modest program. Some scientists argue that the space station will absorb funds that would be better spent on space science and exploration, where the known returns are greater. National prestige would be enhanced by having a space station, yet the current plan would create a permanently manned facility eight years after the Soviet space station, which was launched in 1986.

More specific arguments to support cancellation of the space station focus on the program's diminishing ability to stay within the \$8 billion budget. Additional doubts have been raised about NASA's ability to conclude agreements with the international partners on division of facilities and operating costs that serve U.S. interests. Finally, the launch demands of the space station during the two years of construction would require up to 80 percent of the available shuttle flights and might force launch delays on projects with more definite benefits.

The arguments for the current space station program emphasize its possibilities, both known and unknown, and the U.S. commitments to its allies. The prospects of known uses such as organic and inorganic materials research and, ultimately, manufacturing may be sufficient to justify continuing the program at some level. Advocates further contend that other significant uses for a space station will be discovered after it is operational. From the perspective of national security and foreign policy, if the United States were to back out of the current program, Europe, Canada, and Japan would be driven to continue the project on their own or perhaps in cooperation with the Soviet Union.